

TESTIMONY OF ROBERT W. BLANCHETTE  
ADMINISTRATOR OF THE FEDERAL RAILROAD ADMINISTRATION  
BEFORE THE COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION  
UNITED STATES SENATE  
DECEMBER 8, 1981

I appreciate the opportunity, Mr. Chairman, to discuss with you and the Committee the status of the operating properties of the Rock Island Railroad and the provisions of S.1879.

S.1879 deals with a very important policy issue associated with the liquidation of a bankrupt railroad. In a normal railroad reorganization under Section 77 of the old Bankruptcy Act, the trustee played a dual role. On the one hand, he was charged with protecting the public interest in the continuation of the debtor's rail services. On the other, he was charged, as a fiduciary, with preserving the assets of the estate for the benefit of its owners and creditors. In cases where continued rail operations involved substantial and recurring losses, the duty to keep the public and private interests involved in balance became a difficult and often conflicting charge. The Rock Island case presents a somewhat different question: once a bankrupt railroad corporation has ceased operations as a common carrier,

ROCK ISLAND LINE SUMMARY

At 12/4/81

<u>Purchase Offers/Interim Operations</u>	<u>Total Miles</u>	<u>Area</u>
Keota Washington Transport Company	91.7	Keota to Washington, Iowa Vinton to Iowa Falls, Iowa
Little Rock & Western	9.6	Little Rock to Pulaski, Arkansas Loop Track
Louisiana & Arkansas Ry Company		Dallas, Tx - (Cadiz Yd)
LaSalle & Bureau County RR	22.9	Chicago to Blue Island, Illinois
Milwaukee Road	85.0	Davenport to Fruitland, Iowa Davenport to Iowa City, Iowa Newport - St. Paul, Minnesota
Missouri-Kansas-Texas	804.4	St. Joseph, Missouri to Dallas, Texas Salina to Herington, Kansas El Reno to McAlester, Oklahoma Chickasha to Richards Spur, Oklahoma
Missouri Pacific	48.4	Little Rock to Hazen, Arkansas Little Rock - Vicinity
Norfolk & Western	4	Pullman Junction to Calumet Expressway Chicago, Illinois
St. Louis & Southwestern	65.3	Topeka, Ka and Stuttgart, Ark Brinkley to Briark, Arkansas
Santa Fe	1.3	Alva, Okla
Southern		Memphis, Tenn (Yard)
Toledo, Peoria and Western		Keokuk, Iowa (Yard) Peoria Terminal-Hollis to Iowa Junction, Illinois (Yard)
Union Pacific	<u>36.5</u>	Beatrice, Neb Fairbury to Hallam, Nebraska
Total Mileage	2752	

These hearings are timely, since the Rock Island system served major economic interests and the status quo is unsatisfactory. The Rock Island was a major handler of export grain. It accounted for 10 percent of all grain moved by rail west of the Mississippi and served 15 percent of the nation's grain elevators. The Rock Island also served many important non-agricultural interests. For example, one plant served exclusively by the Rock Island in the Calumet district of Chicago employs some 2,000 people. It has an uncertain future because of stalled negotiations between the Trustee and a potential purchaser.

The call of the Chairman for these hearings asked the Department specifically to address three areas: 1) the status of Rock Island service, 2) the status of efforts to purchase various lines and 3) the provisions of the S.1879.

#### Status of Rock Island Lines

Most rail service on the lines of the Rock Island Railroad is being provided by interim operators who have been given temporary operating rights by the ICC. These arrangements have been in place since March 30, 1980, and without doubt, have prevented a service void that would have been disastrous to Midwest states.

STATUS OF ROCK ISLAND LINES

12/4/81

PURCHASED PROPERTIES

(Sold, Long-Term Lease, Contract to Buy)

<u>Purchaser:</u>	<u>Total Miles</u>	<u>Area</u>	<u>Status</u>
Cedar Rapids & Iowa City Ry	7.0	Iowa City to Hills, Iowa	Purchased
Continental Group	25.0	Hodge to Winnfield, Louisiana Trackage Rights Winnfield to Alexandria, Louisiana	Contract Approved by Reorganization Court
Fordyce and Princeton	54.0	Crossett to Fordyce, Arkansas	Contract Approved by Reorganization Court
Keokuk Junction RR	4.0	Keokuk, Iowa	Purchased
Little Rock and Western	44.0	Pulaski to Perry, Arkansas	Contract Approved by Reorganization Court
Missouri Pacific	40.2	Eldorado, Arkansas Hot Springs line in Arkansas	Purchased
North Central Oklahoma Railroad	133.8	Anadarko to Mangum, Oklahoma Enid to Ponca City, Oklahoma	Contract Approved by Reorganization Court
Peoria & Pekin Union	2.8	Pekin, Illinois	Purchased
St. Louis & Southwestern	933.5	St. Louis, Missouri to Santa Rosa, New Mexico	Purchased
State of Oklahoma	62.0	Hydro to Elk City, Oklahoma	Purchased
TECE Corporation	97.0	Hardesty, Oklahoma to Stinnett, Texas; Morse Junction to Etter, Texas	Contract Approved by Reorganization Court
Baltimore & Ohio (Chessie)	111.3	Blue Island to Bureau, Ill. Bureau to Henry, Illinois	Long-Term Lease
Royal-Manson Shipper Assoc.	55.0	Royal to Manson, Iowa	Contract to Purchase subject to FRA Financing
<b>Total Mileage</b>	<b>1570</b>		

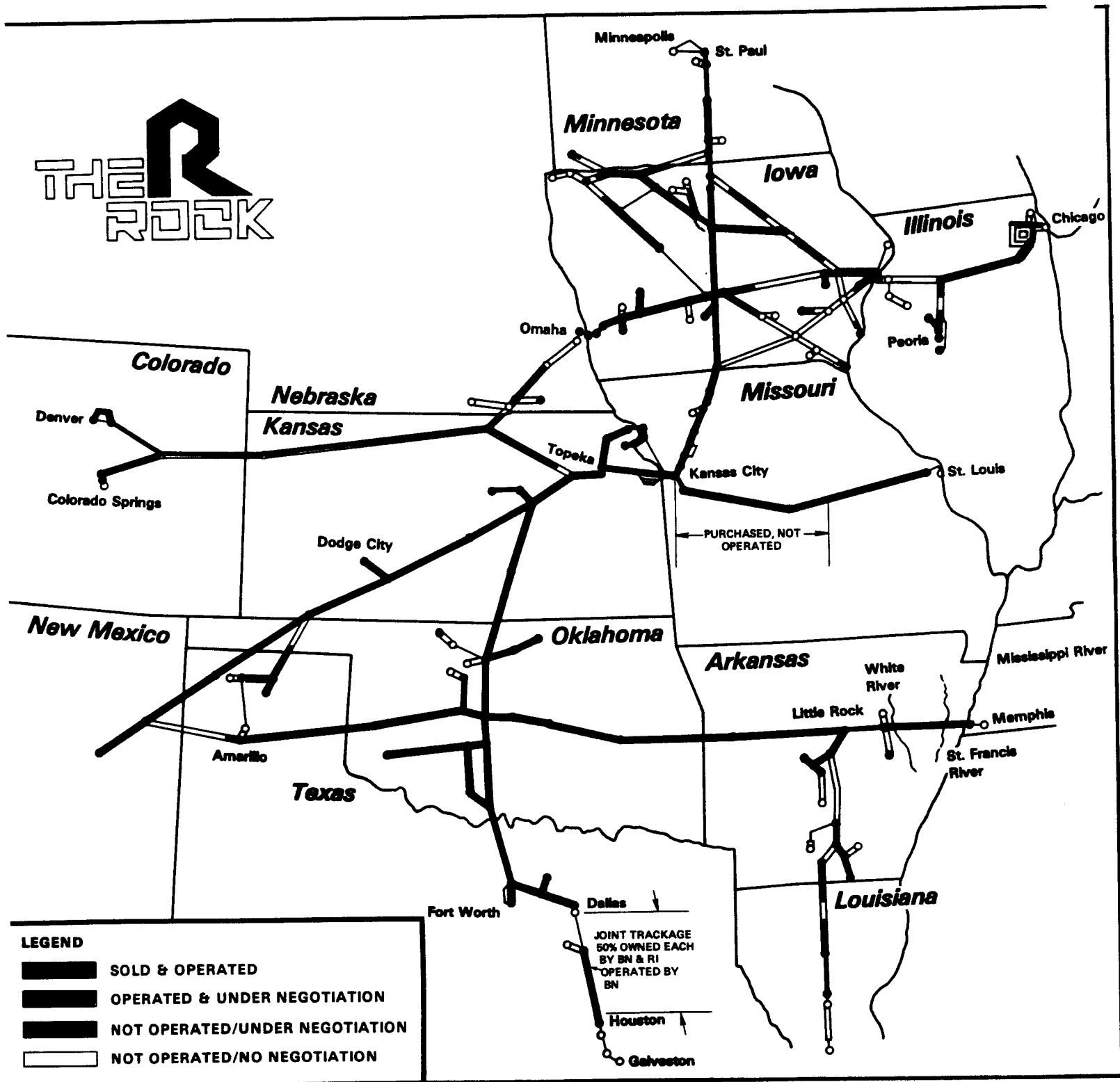
Efforts to Purchase

On January 25, 1980, the Reorganization Court ordered the Trustee to prepare a plan of liquidation for Rock Island Railroad properties. The Trustee since has either sold, entered a long-term lease or contracted to sell a total of 1,570 route miles, which is 26 percent of the former Rock Island system. The largest property sold was the 933-mile "Tucumcari Line" from Santa Rosa, New Mexico, to St. Louis, Missouri. That sale was negotiated before the Court ordered liquidation.

While interim operations have kept service in place on many Rock Island lines, the temporary, uncertain future for that type of operation has had a negative impact. Shippers are not able to fully commit their traffic to operators that may have to withdraw because they have not settled upon a sales price. The operators cannot make the necessary investments in track rehabilitation and other facilities without clear ownership; as a result, service to shippers is often unsatisfactory.

Without any attribution of fault, the status quo can be characterized as a massive stalemate. My staff has brought to my attention several salient examples. The Chicago and North Western

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2. Court Decision: The bill does not provide a period within which the Court must consider the Commission's purchase price. We recommend that such a reasonable time limit be established.

Subsequent to the call for this hearing, we were informally requested to provide our views on the constitutionality of S.1879. We have submitted this question to the Department of Justice which has responsibility within the Executive Branch for issues of constitutionality. We will be guided by the Department of Justice's views on this matter and will be pleased to provide them to the Committee when we receive them.

Mr. Chairman, that completes my prepared testimony and I would be pleased to answer any questions you or other Committee members may have.

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